



Phone +41 22 322 24 24
Fax +41 22 322 24 00
www.bdo.ch

BDO Ltd
Rte de Meyrin 123
Case postale 150
CH-1215 Geneva 15

To the general meeting of

Orphée SA

Plan-les-Ouates

Report of the statutory auditor on the financial statements for the year 2018

(for year ended 31.12.2018)

21 March 2019
13213/21510228/1-1

**Report of the statutory auditor
to the general meeting of**

Orphée SA, Plan-les-Ouates

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Orphée SA, which comprise the balances sheet as at 31 December 2018, and the income statement, cash flow statement and notes for the year then ended.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.



Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
As disclosed in note 3 to the financial statements, the company's investments for a total net value of CHF 16.1 million are valued at historical cost less depreciation, in accordance with the provisions of the Swiss Code of Obligations. We focused our audit on this position because of its significance to the financial statements.	We audited the company's analysis on whether the various significant investments were impaired as of 31 December 2018. We audited the methodology, the assumptions and the results of impairment tests on the company's significant investments. We also made sure that the company disclosed the result of the impairment test in the notes of the financial statements accordingly.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of the financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

Geneva, 21 March 2019

BDO Ltd

Nigel Le Masurier
Licensed Audit Expert

Matthias Paffrath
Licensed Audit Expert
(Auditor in Charge)

Enclosures

Financial statements

**BALANCE SHEET**

	Note	31.12.2018	31.12.2017
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents		172 899	166 633
Trade receivables - net of provision	9.1	1 323 219	1 332 591
Other receivables	9.2	123 304	156 076
Inventory - net of provision	9.3	1 140 572	1 413 492
Accrued income and prepaid expenses		210 496	123 744
TOTAL CURRENT ASSETS		2 970 490	3 192 536
NON CURRENT ASSETS			
Investment in subsidiaries - net of provision	3	16 127 500	16 127 500
Financial assets	4	41 125	41 125
Tangible fixed assets	9.4	41 346	23 181
Intangible fixed assets	9.5	49 264	58 585
TOTAL FIXED ASSETS		16 259 235	16 250 391
TOTAL ASSETS		19 229 725	19 442 927
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES			
Trade payables	9.6	2 344 521	1 526 392
Short term interest-bearing liabilities		4 907	-
Deferred income and accrued expenses	9.7	79 705	99 651
Provisions	9.8	2 105 000	2 110 120
TOTAL CURRENT LIABILITIES		4 534 133	3 736 163
NON CURRENT LIABILITIES			
Long-term interest-bearing liabilities		20 914	-
TOTAL NON CURRENT LIABILITIES		20 914	-
TOTAL LIABILITIES		4 555 047	3 736 163
SHAREHOLDERS EQUITY			
Share capital		3 860 850	3 860 850
Legal capital reserves			
- reserves from capital contributions	6	46 618 779	46 618 779
Own shares		(8 809 177)	(8 809 177)
Voluntary retained earnings :			
1- results carried forward		(25 963 687)	(25 930 341)
2- result for the year		(1 032 087)	(33 347)
Total voluntary retained earnings		(26 995 774)	(25 963 688)
TOTAL SHAREHOLDERS EQUITY		14 674 678	15 706 764
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		19 229 725	19 442 927

**INCOME STATEMENT**

	Note	2018	2017
OPERATING INCOME			
Net revenue		8 539 794	8 534 151
Other operating income	10.1	28 934	14 426
TOTAL OPERATING INCOME		8 568 728	8 548 577
OPERATING EXPENSES			
Changes in inventory		(94 285)	(697 808)
Cost of goods		(6 161 384)	(5 331 882)
Salaries and social charges		(717 872)	(806 947)
Other operating expenses	10.2	(2 319 127)	(2 276 535)
TOTAL OPERATING EXPENSES		(9 292 668)	(9 113 172)
OPERATING RESULTS BEFORE INTERESTS, TAXES AND DEPRECIATION		(723 940)	(564 595)
Depreciation and value adjustments on fixed asset items		(22 085)	(21 132)
(Allocation) / reversal of the provision for bad debts		26 790	23 212
(Allocation) / reversal of the provision for inventory		(159 755)	(169 860)
(Allocation) / reversal of the litigation provision		5 456	257 000
OPERATING RESULT BEFORE INTERESTS AND TAXES		(873 534)	(475 375)
Financial income	10.3	2 315	34 409
Financial expenses	10.4	(27 831)	(14 440)
Exchange (loss) / gain		18 328	11 621
ORDINARY OPERATING RESULT BEFORE TAXES		(880 722)	(443 785)
Non-operational costs and non-operational income		-	-
Extraordinary, non-recurring or prior-period income	10.5	-	1 967 415
Extraordinary, non-recurring or prior-period expenses	10.6	(164 120)	(1 482 037)
RESULT BEFORE TAXES		(1 044 842)	41 593
Taxes		12 755	(74 940)
RESULT FOR THE PERIOD		(1 032 087)	(33 347)

**CASH FLOW STATEMENT**

	2018	2017
LOSS FOR THE PERIOD	(1 032 087)	(33 347)
Depreciation on fixed assets items	22 085	21 132
Value adjustments on intangible assets	-	1 475 045
Change in provision for investments	-	(1 901 603)
Change in trade receivables and other current receivables	42 144	(487 719)
Change in inventories	272 920	797 274
Change in accrued income and prepaid expenses	(86 752)	117 115
Change in trade payables and other current liabilities	818 130	(99 745)
Change in deferred income and accrued expenses	(19 946)	14 824
Change in provisions	(5 120)	(285 327)
Other adjustments	-	3 762
CASH FLOW FROM OPERATING ACTIVITIES	11 374	(378 589)
Purchase of tangibles assets	-	(6 834)
Purchase of intangible assets	(1 774)	(2 927)
Return of advance to buy an Organized part of the Enterprise from PZ Cormay S.A.	-	431 000
CASH FLOW FROM INVESTMENT ACTIVITIES	(1 774)	421 239
Repayment of capital of finance lease liability	(3 334)	-
CASH FLOW FROM FINANCING ACTIVITIES	(3 334)	-
TOTAL CASH FLOWS	6 266	42 650
Cash and cash equivalents of the beginning of the period	166 633	123 983
Cash and cash equivalents of the end of the period	172 899	166 633
NET INCREASE/DECREASE IN CASH	6 266	42 650

**NOTES TO THE FINANCIAL STATEMENTS****1) GENERAL**

The Company was incorporated in Plan-les-Ouates (Switzerland) on June 7th, 2002. The corporate purpose of the Company, according to Article 2 of its article of incorporation is the development and marketing of reagents, tests and instruments for in vitro diagnostics.

The share capital of 3 860 850 CHF consists of 38 608 500 fully paid bearer shares of 0.10 CHF each.

Financial statements are presented in accordance with the legal accounting policies applicable in Switzerland.

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

The current accounts were established in accordance with the Swiss law principles and in particular according to articles 957 to 962 on commercial accounting and Swiss codes of obligations accounts presentation.

Revenues and charges are recorded on base of the agreed services and commitments.

In addition to the statutory financial statements, Orphée SA prepares consolidated financial statements under International Financial Reporting Standards (IFRS), in accordance with the requirements of NewConnect alternative trading system organised and operated by the Warsaw Stock Exchange outside the regulated market, where the Company's shares are listed.

2) NUMBER OF FULL-TIME POSITIONS

The number of full-time equivalents on a yearly average during the year 2018 as well as during the year 2017 did not exceed 10 employees.

3) INVESTMENTS IN SUBSIDIARIES, STATING SHARE OF CAPITAL AND VOTES HELD

	Share of capital held	Share of votes held	<u>31.12.2018</u>	<u>31.12.2017</u>
Diesse Diagnostica Senese S.p.A. Milano (ITA)	45.00%	50.00%		
The company is in the business of manufacturing reagents and immunoassay analysers in Italy				
Purchase price			18 750 000	18 750 000
<u>Less : Provision</u>			<u>(5 284 397)</u>	<u>(5 284 397)</u>
			13 465 603	13 465 603
Orphée Technics Sp. z o.o., Lublin (POL)	100.00%	100.00%		
Polish company managing real estate				
Purchase price			2 407 705	2 407 705
<u>Less : Provision</u>			<u>(1 066 877)</u>	<u>(1 066 877)</u>
			1 340 828	1 340 828
Innovation Enterprises Ltd., Carrigtwohill (IRL)	99.88%	99.88%		
Irish company in the business of manufacturing and distributing reagents and biochemistry analysers				
Purchase price			2 359 676	2 359 676
<u>Less : Provision</u>			<u>(2 359 676)</u>	<u>(2 359 676)</u>
			-	-



Kormiej Rusland Sp. z o.o., Moscow (RUS)	100.00%	100.00%		
Russian company engaged in wholesale of medical equipment and reagents.				
Purchase price			1 614 147	1 614 147
Less : Provision			(313 577)	(313 577)
			1 300 570	1 300 570
 Kormej Diana Sp. z o.o. , Minsk (BLR)	 98.50%	 98.50%		
Import of medical equipment, consumables and reagents to Belarus				
Purchase price			20 499	20 499
 Total			 16 127 500	 16 127 500

No impairment loss of investments was recognised in 2018, as based on Orphée's analysis there were no impairment indicators.

Orphée has initiated a process to sell its share in Diesse Diagnostica Senese S.p.A (Diesse).

On September 28, 2018, Orphée signed a letter of intent with the entity interested in purchasing the entire stake held by Orphée in Diesse. Pursuant to the letter of intent, the prospective buyer will carry out the due diligence of Diesse, as a result of which a decision will be made regarding the proceeding with the sale transaction. The letter of intent gives the potential buyer the exclusive right to conduct the due diligence and to negotiate the purchase of Diesse shares from the day of signing the letter of intent to the end of the six-week period counted from the start of the due diligence process.

The original term of exclusivity rights was extended and currently Orphée and the interested entity are in the final stage of negotiations during which the final terms of the potential transaction and the content of the transaction documents are being agreed. In the event of successful completion of negotiations, Orphée shares in Diesse may be sold, however, continuing the process of preparing the transaction does not guarantee its implementation.

As the final price was not agreed yet Orphée decided not to reverse the impairment loss in Diesse recognised as of December 31, 2018.

4) COLLATERAL FOR THIRD-PARTY LIABILITIES

As of December 31, 2018, there were two bank guarantees issued securing the Company's liabilities: one of 17 500 CHF in favour of Swisscard AECS GmbH and one of 23 625 CHF to Regie Rosset Immobilier.

5) THE BOARD OF DIRECTORS

The Board of Directors as of 31 December 2018 was as follows:

Janusz Płocica
Domingo Dominguez
Krzysztof Rudnik
Wojciech Suchowski

- the Chairman of the Board of Directors
- the Member of the Board of Directors
- the Member of the Board of Directors
- the Member of the Board of Directors

The Board of Directors as of 31 December 2017 was as follows:

Janusz Płocica
Domingo Dominguez
Krzysztof Rudnik
Piotr Skrzyński
Wojciech Suchowski

- the Chairman of the Board of Directors
- the Member of the Board of Directors
- the Member of the Board of Directors
- the Member of the Board of Directors
- the Member of the Board of Directors



On January 8, 2018 the Company received a letter containing information about a resignation of Mr. Piotr Skrzyński from the position of a Member of the Company's Board of Directors effective from February 28, 2018. Other than that there were no changes in the composition of the Board of Directors during the year 2018.

6) OWN SHARES

In 2015, 3 859 118 shares were purchased by the Company for a total amount of 8 809 177 CHF (rounded down to 2.28 CHF per share).

	31.12.2018	31.12.2017
Balance of own shares as of 01.01	8 809 177	8 809 177
Purchases	-	-
Sales	-	-
Balance of own shares as of 31.12	<u>8 809 177</u>	<u>8 809 177</u>

7) SIGNIFICANT SHAREHOLDERS

The list of significant shareholders (holding directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting) as at December 31, 2018 and the date of this report as well as at December 31, 2017:

Shareholder	31.12.2018 and the date of the report		31.12.2017	
	No. Shares / No. of votes in GSM	% of capital/votes in GSM	No. Shares / No. of votes in GSM	% of capital/votes in GSM
PZ Cormay S.A.	30 731 308	79,60%	30 731 308	79,60%
Orphée SA	3 859 118	10,00%	3 859 118	10,00%
Others	4 018 074	10,40%	4 018 074	10,40%
Total	<u>38 608 500</u>	<u>100,00%</u>	<u>38 608 500</u>	<u>100,00%</u>

8) SHARES HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS

Member of the Board of Directors	Number of shares as of 31.12.2018	Number of shares as of 31.12.2017
Janusz Plocica	-	-
Domingo Dominguez	-	-
Krzysztof Rudnik	-	-
Piotr Skrzyński	N/A	-
Wojciech Suchowski	-	-

9) INFORMATION RELATED TO ITEMS ON THE BALANCE SHEET

9.1) Trade receivables - net of provision	31.12.2018	31.12.2017
Trade receivables - third parties	1 373 948	1 378 924
Trade receivables, subsidiaries and associates	8 917	30 319
Less: provision for bad debts	(59 646)	(76 652)
Total	<u>1 323 219</u>	<u>1 332 591</u>

9.2) Other receivables	31.12.2018	31.12.2017
VAT receivables	123 304	153 034



Interest receivable from PZ Cormay S.A.	-	3 042
Total	123 304	156 076

9.3) Inventory - net of provision	31.12.2018	31.12.2017
Finished goods	1 612 005	1 731 191
Less: provision for inventory	(471 432)	(317 699)
Total	1 140 572	1 413 492

9.4) Tangible fixed assets

	Depr. Rate	Net value as of 31.12.2017	Purchase/ (Sale)	Depreciation 2018	Net value as of 31.12.2018
Machinery and equipment	10%	12 490	-	(2 549)	9 941
Motor vehicles	20%	6 013	29 155	(5 533)	29 635
IT equipment	33%	3 915	-	(2 199)	1 716
Office furniture	10%	763	-	(709)	54
Total		23 181	29 155	(10 990)	41 346

**9.5) Intangible fixed
assets**

	Depr. Rate	Net value as of 31.12.2017	Purchase/ (Sale)	Depreciation 2018	Impairment 2018	Net value as of 31.12.2018
Patents, license	10%	58 585	1 774	(11 095)	-	49 264
Total		58 585	1 774	(11 095)	-	49 264

9.6) Trade Payables	31.12.2018	31.12.2017
Trade payables, third parties	1 168 201	782 437
Trade payables, shareholder	1 174 672	740 715
Trade payables to the statutory auditor	1 648	3 240
Total	2 344 521	1 526 392

9.7) Deferred income and accrued expenses	31.12.2018	31.12.2017
Audit fees	36 955	40 631
Other accrued expenses	42 750	59 020
Total	79 705	99 651

9.8) Provisions	31.12.2018	31.12.2017
Provision for litigation related to a loan from January 8, 2010	2 105 000	2 105 000
Provision for litigation with Diagnostica Holding s.r.l.	-	5 120
Total	2 105 000	2 110 120

**Provision for litigation related to a loan from January 8, 2010**

Orphée SA is involved in 2 legal disputes, both of which refer to claims related to a loan agreement dated January 8, 2010 for the amount of 2 000 000 CHF.

On August 10, 2016 one of two lenders filed a claim against the Company requesting payment of the half of the amount of the loan, namely 1 000 000 CHF together with interest of 3% p.a. starting from January 1, 2015.

In the Company's opinion the received demand for payment is unjustified. The company points out that according to the agreement - the loan amount should become payable in case of achieving by Orphée SA in the loan period net profit of at least 2 million CHF. At the same time in case of failure in achieving by the PZ Cormay Group net profit of 3 million CHF within 5 years from the date of signing the Agreement, the loan in accordance with the content of that Agreement was supposed to be subject to redemption.

Currently the proceeding is taking place before the Civil Court in Geneva.

On November 11, 2016 the second lender filed a claim against the company requesting payment of interest related to the loan in the amount of 30 000 CHF. As a result of an analysis of both proceedings and due to the fact that both cases relate to the same factual state, the representative of the company filed, on October 30, 2017, an application to the Court that both claims be joined. On February 26, 2019 the Court decided against joining the cases. Orphée concluded not to appeal from the decision of the Court.

Until the final judgment by the Court, the Company decided, in line with the prudence principle, to recognise the provision for the whole amount of the loan being the subject of the dispute, namely 2 000 000 CHF, plus interest.

10) INFORMATION RELATED TO ITEMS IN THE INCOME STATEMENT

<u>10.1) Other operating income</u>	2018	2017
Sale of services	28 934	14 426
Total	28 934	14 426

<u>10.2) Other operating expenses</u>	2018	2017
Logistics and other supporting services	1 484 631	1 304 821
Sales supporting services	347 829	386 742
Rent and maintenance expenses	116 239	121 334
Legal and fiduciary fees	106 945	103 970
Travel expenses	86 805	76 846
Directors' fees	57 000	72 000
Legal taxes	19 437	88 055
Other	100 241	122 767
Total	2 319 127	2 276 535

<u>10.3) Financial income</u>	2018	2017
Interests on trade receivables / advances paid	2 303	34 372
Bank interest income	12	37
Total	2 315	34 409

<u>10.4) Financial expenses</u>	2018	2017
Interest on bank facilities	14 307	746



Interests and bank fees	13 524	13 694
Total	27 831	14 440

10.5) Extraordinary, non-recurring or prior-period income	2018	2017
Reversal of impairment provision of investment in Diesse Diagnostica Senese S.p.a.	-	1 901 603
Reimbursement of the court expenses from Diagnostica Holding s.r.l.	-	56 401
Other	-	9 411
Total	-	1 967 415

10.6) Extraordinary, non-recurring or prior-period expenses	2018	2017
Impairment of development costs MSL30 (see description below)	-	1 475 045
Adjustment to the opening balance of the receivables provision (see description below)	131 048	-
Penalties	28 185	-
Expenses related to previous year	-	6 992
Other	4 887	-
Total	164 120	1 482 037

Impairment of development costs on MSL30 in 2017

In the prior periods the Company capitalised development costs on MSL30 project – a new hematological analyser of 3-diff class with the reagents line and the control material. The development was done in cooperation with Diagdev SAS company based on the agreement from February 2, 2015.

In the second half of 2016 the Board of Directors started negotiations with Diagdev related to a change of the form of cooperation between the two companies. As a result of the talks, on April 3, 2017 Diagdev SA terminated the agreement from 2015.

On December 22, 2017 Orphée signed an agreement with Diagdev, according to which, in particular:

- 1) Diagdev releases the Company from its liability of 300 000 EUR (of which 200 000 EUR were included in development costs as of December 31, 2016, the remaining 100 000 EUR related to 2017 invoices).
- 2) Orphée accepts that all technical solutions and know-how developed within the framework of the cooperation remain intellectual property of Diagdev, with Diagdev agreeing to grant the company a free license, unlimited in time or territorially, for the use of the above-mentioned technical solutions and know-how for the development, production and sale of products,
- 3) In connection with the arrangements set out in points 1) and 2), the parties shall waive all claims related to the above-mentioned cooperation.
- 4) Orphée will receive documentation of all technical solutions developed by Diagdev SAS related to the project.

On March 9, 2018 after analysis of the costs required to finish the project and its expected profitability, the Board of Directors adopted a resolution to suspend the further work on it. The project is not part of the strategic projects of the PZ Cormay Group to which Orphée belongs.

Due to the above the Board of Directors decided to recognise an impairment provision for the whole amount of development costs related to the project – 1 475 045 CHF as of December 31, 2017. The amount included the value of the project as of December 31, 2016 of 1 689 733 CHF adjusted by credit notes received in 2017 in the amount of 214 688 CHF (200 000 EUR).

Change in calculation of bad debt provision

The group of the parent of Orphée – PZ Cormay Group, introduced, starting from January 1, 2018, a new methodology of calculating of bad debt provision. PZ Cormay Group reports under International Financial Reporting Standards (IFRS). The new methodology results from changes in the IFRS rules of calculating the bad debt provision for receivables, namely the



introduction of the standard IFRS 9. As the new Group methodology complies with the requirements of the Swiss Code of Obligations, Orphée decided to introduce it also in its separate financial statements.

Until December 31, 2017 the Company calculated the bad debt provision only for receivables overdue by more than 360 days in the amount of 100% of the receivables.

Starting from January 1, 2018 the bad debt provision is taken to be the amount of expected credit losses throughout the life of receivables. The expected credit losses are calculated, using the so called provision matrix, by multiplying the gross value of receivables in each overdue age range (defined by number of days overdue) by calculated default rates for receivables from the respective range. The default rates are calculated using the historical data on payments and defaults of receivables from each range.

The impact of the new methodology on January 1, 2018 was as follows:

Bad debt provision as of January 1, 2018 before adjustment	76 653
Opening balance adjustment	131 048
Bad debt provision as of January 1, 2018 after adjustment	207 701

11) ADDITIONAL INFORMATION IN THE NOTES (Art. 961a Code of Obligations)

11.1) Fees for audit services and other services	2018	2017
Fees paid to the statutory auditor for audit services	26 500	30 000
Fees paid to the independent auditor for the audit of the consolidated accounts	10 455	10 631
Total	36 955	40 631

12) DETAILS OF ACCOUNTING PRINCIPLES APPLIED IN THE ANNUAL FINANCIAL STATEMENTS

Valuation methods of assets and liabilities and calculation of financial results.

Tangible fixed assets

Tangible fixed assets shall be the assets acquired with the intention to be used or maintained within the period longer than 12 months. Office furniture, computer equipment, industrial equipment and transport means are among others classified by the Company as tangible fixed assets. Initially, tangible fixed assets shall be valued according to their purchase price or manufacturing cost. As of the balance sheet date, tangible fixed assets shall be valued at their purchase price or manufacturing costs reduced by total depreciation write-offs (amortisation) and total losses incurred due to impairment.

Fixed assets shall be depreciated on a straight-line basis starting from the month in which a fixed asset becomes available for use. Depreciation rates correspond to the expected useful life of the assets. Depreciation rates of fixed assets are applied as follows:

- technical equipment and machinery 10%
- computer equipment 33%
- transport means 20%
- office furniture 10%

Period and method of depreciation shall be verified once a year. Possible amendments shall be introduced with an effect from the first day of subsequent financial year.

As of each balance sheet date, the Company shall review tangible fixed assets in terms of impairment. Having identified any indications of impairment, the Company shall initiate procedures to determine market value and estimating potential write-down of the assets. Impairment loss shall be included in the financial results with an immediate effect.



Intangible assets

Investments in development projects, the acquired permits, patents, licences, computer software shall be classified as intangible assets.

Initially, intangible assets shall be valued at their purchase price or cost of development. As of the balance sheet date, intangible assets shall be valued at their initial value less total depreciation write-offs and possible write-downs on account of impairment. Intangible assets shall be depreciated on a straight-line basis starting from the month in which they become available for use.

Depreciation rates result from the periods of economic useful life of the assets. Depreciation rates of intangible assets shall be applied as follows:

- development works 20%
- patents, permits, licences 10%-20%

Period and method of depreciation shall be verified once a year. Possible amendments shall be introduced with an effect from the first day of subsequent financial year.

The in-house development cost of an intangible asset shall include all outlays which might be directly assigned to the acts of creation, production and adaptation of an asset to its usage in the manner envisaged by the management. Such direct outlays shall include as follows:

- outlays on the materials and services used or worn out during development of an intangible asset;
- expenses incurred due to employee benefits resulting directly from the production of an intangible asset;
- fees for registration of legal titles;
- depreciation of patents and licences used in the production of an intangible asset.

At least once a year, the Company shall verify availability of the proper technical, financial and other means which shall support completion of development works. For this purpose, financial forecasts (the outlays necessary for completion of the essential development projects, financing sources, planned revenues and margin on sales of new products) shall be prepared. Based on the forecasts, the entity shall also undertake verification of development works in terms of impairment as of the balance sheet date.

As of each balance sheet date, the entity shall check if there are indications that the value of intangible assets may be impaired. Having identified any indications for impairment, the Company shall initiate the procedures to determine market value and estimating potential revaluation write-down of the assets. Impairment loss shall be included in the financial results with an immediate effect.

Investments in subsidiaries, jointly controlled entities and associates

The investments in subsidiaries, jointly controlled entities and associates shall be valued according to their purchase price less the write-downs on account of impairment.

Inventory

Materials, goods, work in progress and finished products shall be considered as inventory.

Inventory shall be valued at purchase cost/manufacturing cost or the possible to obtain net sales price, whichever is lower.

To bring the inventory value to the possible to obtain net sales price the Company calculates an inventory provision. A 100% provision is applied to the expired reagents. A 100% provision is also applied to slow moving stock, i.e. the surplus of each stock item over the projected two year sales, where projection is based on the past performance.

Inventory shall be presented at its net value less the inventory provision.

Inventory issue shall be valued by using the average cost method. Valuation of inventory issue through a detailed identification of actual prices/costs shall be acceptable.

Trade and other liabilities



Trade and other liabilities shall be valued at the amount due.

The financial statement shall present liabilities divided into short-term and long-term. The long-term liabilities shall include the liabilities due within the period exceeding 12 months from the balance sheet date whereas the liabilities due within a shorter period or held for trading shall be presented as short-term.

Trade and other receivables

Trade and other receivables shall be recognised and disclosed at the amounts initially invoiced, taking into account bad debt provision.

Starting from January 1, 2018 the bad debt provision is taken to be the amount of expected credit losses throughout the life of receivables. The expected credit losses are calculated, using the so called provision matrix, by multiplying the gross value of receivables in each overdue age range (defined by number of days overdue) by calculated default rates for receivables from the respective range. The default rates are calculated using the historical data of payments and defaults of receivables from each range.

Receivables in a foreign currency shall be valued when they arise using an average monthly rate. As of the balance sheet date, the receivables in a foreign currency shall be valued using an official rate specified by the government.

Cash and cash equivalents

Cash and cash equivalents shall include cash at hand, in bank, cash in transit as well as bank deposits and other securities and interest on financial assets payable or due within 3 months from the date of their receipt, acquisition, purchase or establishment. Domestic assets shall be stated in the financial year and as of the balance sheet date in the accounting books at their face value. The face value shall include the added or possibly charged by the bank interest. As of the balance sheet date, the assets expressed in a foreign currency shall be calculated based on an official rate specified by the government.

Items expressed in foreign currencies

For the purpose of valuation of items expressed in foreign currencies, the Company shall apply a fixed monthly rate established at the beginning of each month. The balance sheet valuation shall be undertaken at the end of the financial year according to the official rate defined by the government.

At the time of making payments, the executed foreign exchange rate differences shall be presented as "loss on foreign exchange" or "gain on foreign exchange".

Accruals and prepayments

Prepayments shall be recognised for the expenses relating to more than one reporting period.

Prepayments shall include, among others, services paid for in advance. The expenses shall be settled in accordance to the lapse of time.

Accruals shall be recognised in the amount of probable liabilities being due in the current reporting period. An accrual allows the Company to record expenses and revenues for which it expects to expend cash or receive cash, respectively, in a future reporting period.

Deferred income

Deferred income shall include in particular the equivalent of funds received or due from contractors for the services to be rendered in subsequent reporting periods.

Provisions

Provisions shall be established if the Company has a legal or following from commercial practice obligation resulting from the past events and when it is probable that the fulfilment of this obligation would cause an outflow of economic benefits, and a reliable estimate of the value of these benefits can be made.



Taxes

Taxes shall be accounted for in accordance with the arrangements made with cantonal tax administration.

Equity

Equity shall be the assets less liabilities and provisions for liabilities. Equities shall be presented in the financial statements by type and according to the principles stipulated by the law and provisions of the Articles of Association.

Stock-taking of assets and liabilities

The rules of stock-taking, the documentation and settlement had been included in the Stock-taking Instruction. Every year, the Board of Directors issues the Order with respect to stock-taking, which defines the composition of stock-taking commission and the schedule of stocktaking performance.